Central Intelligence Agency

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DIRECTORATE OF INTELLIGENCE

China: The Year in Review

6 June 1985

Summary

China's economic and political situation continued to improve this past year, although some economic overheating problems began to develop early in 1985. Deng Xiaoping continues to dominate the political system, and to push it in the direction of further reform, including increased trade with the developed countries. Relations with the United States remained stable, and some improvement was evident in China's relations with the USSR, although fundamental differences still divide the two states. The leadership has rededicated itself to continuing economic and political reform, and is pushing controversial policies to achieve its goals. These policies are causing some political problems, but as we yet do not believe they seriously threaten China's efforts to reform its economy and improve its economic relationship with the United States.

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China continues to tilt toward the West for both strategic and economic reasons despite its claim to be following an "independent foreign policy." Eager to use the United States as a counterweight to the Soviet Union and to obtain help for their modernization drive, Chinese leaders have moved over the past year to improve relations with Washington. Beijing also has made friendly overtures to the new Soviet leader, probing for Soviet flexibility on the security issues that have long divided them and seeking some

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This memorandum was prepared by [redacted] Domestic Policy Branch [redacted] Foreign Affairs Branch, China Division, Office of East Asian Analysis in response to a Treasury Department request. Questions and comments are welcome and should be directed to the Chief, China Division, OEA at [redacted]

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manuevering room in the China-US-USSR triangle. Above all, Deng Xiaoping and his reform-minded allies continue to seek greater access to Western technology, credits and markets while trying to keep tensions with Moscow manageable so that they can concentrate their energies on overcoming China's economic backwardness.

Domestic Politics

1984 was a year of marked progress for the reform wing of the party under Deng Xiaoping. Beginning with their successful damage control efforts in the wake of the "spiritual pollution" campaign of late 1983, the reformers developed significant political momentum through the spring and summer, and capped their drive for dominance in the party at 3rd Plenum of the 12th Central Committee endorsement in October. That party meeting saw the formal Central Committee approval of still controversial economic reform policies which have dominated the political agenda ever since.

Deng Xiaoping is more than ever the key to leadership stability and policy continuity in China. This was vividly demonstrated by China's 1 October National Day celebrations, complete with military parade, over which Deng presided in his capacity as Chairman of the party and state Military Commissions. Deng has been quite successful in turning over many of the routine responsibilities of party and government administration to his chosen successors, General Secretary Hu Yaobang and Premier Zhao Ziyang, but he remains the most crucial actor in the system, adjudicating, arranging, or actually deciding the key issues before the leadership.

Hu and Zhao both made considerable progress in firming up their leadership positions during 1984. Although Hu was somewhat under a cloud during the "spiritual pollution" campaign, he regained the initative by mid-year, travelling throughout the country to gather support for increasing the pace of economic reform. Zhao has been consistently active in developing and explaining reformist policies, and has accumulated considerable experience in foreign affairs as well. Zhao has not been as active as Hu in developing a group of loyal proteges and placing them in key positions within the party. He has, however, been effective in bringing into key government positions well educated, experienced technocrats better able to handle the real work of their ministries.

1984 was an important year for party reform in China, and significant progress was made in rejuvenating the party's aged leadership ranks. At the center, Hu Qili, 56, emerged as a major political figure, planned successor to Hu Yaobang. In the State

Council, Vice Premiers Li Peng, 57, and Tian Jiyun, 56, began to exercise more authority and were cited as model examples of future party leaders. Deng and Hu Yaobang gave proof of their commitment to the continuation of this rejuvenation process on numerous occasions in 1984. The most important was their scheduling of a Central Committee "conference of delegates" for September 1985, at which major leadership changes in the Politburo and Central Committee (perhaps the replacement of up to 15% of its membership) would be approved. The retirement guidelines established a few years ago became something more akin to retirement deadlines for many cadre in 1984. Hu indicated that upwards of one million cadre would be retired in 1985, including 70 percent of the party committees of major state enterprises, and the majority of State Council ministers and provincial leaders over the age of 65.

Party rectification moved into its second year and second stage in late 1984, but with a change of focus that has led to some confusion and a tendency not to take the campaign seriously. As a result, there are conflicting reports of how party members have actually been forced to give up their registration cards. Hu Yaobang told Hong Kong journalists in early 1985 that 60,000 of the 1 million cadres reassessed in the first stage of rectification were dropped from party rolls. Aside from the purge aspect of rectification, the campaign served as a convenient vehicle to tighten discipline and educate party members on other areas of central concern. In 1984, for example, rectification activities centered on "completely negating" the Cultural Revolution and eliminating factionalism from local party committees. By late 1984, rectification had been specifically linked to generating political support for economic reform policies, and by early 1985, the elimination of corruption and other economic crime was declared to be the principal goal of rectification work.

Clearly the most important political issue to be addressed in China in 1984 was economic reform and decisions made late last year will have long term consequences for how China manages its economy. Even though urban and industrial reforms approved at the October plenum were not entirely new, and had been discussed and tested extensively in some local areas, Central Committee approval imparted a legitimacy and acceptability to policies that had heretofore been treated with distrust and caution by rural and urban cadre. The Central Committee Decision on the Reform of the Economic Structure, which called for reduced government control of the economy, generated a remarkable wave of enthusiasm and support for reform, and an almost frenetic surge of economic activity dedicated to achieving the party's avowed goal of "making the people rich." [redacted]

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The political agenda for 1985 will be dominated by the repercussions of those decisions. The loosening of restrictions and controls on China's economy triggered a period of accelerated growth, accompanied by wage and price hikes, foreign currency speculation, and tax evasion that clearly caught even the most enthusiastic reformers by surprise. The reform wing of the party clearly feels vulnerable as a result of these negative consequences of reform and their concern and anger is reflected in media commentary. So far, conservative opponents of reform have been able to generate enough criticism to slow the pace of reform, but they have not been able to roll back the program. The reform group in the leadership is determined to press forward, but will depend largely on implementation of wage and price reforms this summer and on results of the party meeting this September.

The other major issue in 1985--personnel changes--is the focus of the September meeting. Deng and the reformers are pushing hard to retire party conservatives and laggards on reform, and to build a coalition in the party that will have a stake in maintaining and expanding current policies. The September meeting is intended to be a major step in this direction, and it can be expected that those whose careers or political influence are threatened by Deng's political steamroller will do all they can to preserve their positions or limit Deng's gains before the meeting. In such a high-stakes situation, we expect that political tensions in Beijing will rise as planning for the meeting proceeds.

Foreign Policy

Sino-US relations have improved markedly over the past year and a half, symbolized by President Reagan's visit to China last spring. Although differences remain over the long term grain agreement, US textile quotas and other bilateral issues, the Chinese are no longer using such issues as litmus tests of US friendship. Beijing placed the Taiwan problem--the most chronic source of friction--on the back burner in 1984, but it has the potential to resurface as a contentious issue at anytime.

China instead is increasing it efforts to obtain US technology and private investment capital. US-China trade last year reached $6 billion--at least a quarter of that consisted of Chinese imports of US technology. US companies, moreover, have now invested over $700 million in China--much of it in oil exploration--making the United States the second largest foreign investor in China after Hong Kong.

In addition, Beijing is seeking US weapons technology and with it an implicit strategic relationship to counter the Soviet

threat China faces. Despite their occasional denials, the Chinese clearly are worried about the continuing Soviet buildup of strategic forces (SS-20s, Backfire bombers, and nuclear attack submarines) in the Far East, as well as the pace of modernization of Soviet conventional forces along their border. China obviously cannot afford to match this buildup; nor does it have the technological know-how yet to deal with the growing qualitative gap in weaponry. The Chinese feel particularly vulnerable to Soviet armor and airpower.

Even if China were to obtain the US weapons technology it wants, the Chinese recognize that it would take them years to produce and absorb such weapons in sufficient numbers to make a difference. That places a premium on political means to handle any Soviet attempt at intimidation. Reducing tensions with Moscow is one way. But by seeking to develop an arms relationship with the United states--which the Soviets are likely to see as having strategic overtones--the Chinese almost certainly want to signal the Soviets that they are not seeking better relations from a position of weakness, and, consequently, they are not isolated and susceptible to Soviet pressure.

The Chinese tried to exploit President Reagan's visit to make that point to Moscow last year. Shortly after the visit, for example, China increased military pressure on Vietnam and held naval manuevers in the South China Sea in reaction to a joint Soviet-Vietnamese amphibious exercise clearly timed to demonstrate Soviet support for a Vietnamese offensive against Chinese-backed insurgents in Cambodia. The tough Chinese response--which may have seemed to the Soviets to have tacit US support--apparently prompted Moscow to postpone a scheduled visit of Deputy Premier Arkhipov to China last May.

Having strengthened ties with the United States, Beijing has recently sought to restore some momentum to stalled Sino-Soviet relations. The Chinese gave Arkhipov a cordial reception when he finally arrived in December. They also signed new trade and science and technology cooperation agreements with Moscow. After Chernenko's death in March, Chinese leaders quickly signalled a readiness to improve relations further by making several important symbolic gestures to the new Soviet leader, including referring to the Soviet Union as "socialist" for the first time since the mid-60s. In June both sides plan to sign a long term trade accord, which has the goal of increasing bilateral trade to $6 billion by 1990. They have also agreed to raise the level of their political dialogue to the foreign minister level, but have not yet set a date for a Wu-Gromyko meeting.

Prospects for greatly improved political relations, however, remain remote. The Chinese continue to insist that Moscow

accommodate at least one of their key security concerns--the so-called "three obstacles"--before political relations can improve appreciably. Indeed, much of Chinese foreign policy remains keyed to checking Soviet influence, especially around China's periphery. Although the Chinese media have recently tempered their criticism of Soviet policy in Afghanistan and Indochina, Beijing continues to back Afghan and Cambodian insurgents. The Chinese also remain adamantly opposed to a compromise with Hanoi over Cambodia so long as Vietnam refuses to withdraw its troops.

Beijing has been equally insistent that Moscow draw down its forces in Mongolia as a gesture of friendship. And Beijing has encouraged North Korea to open its doors to more contact with the West and to hold talks with South Korea, in part, to limit Soviet influence there.

China's relations with Western Europe are governed by similar strategic and economic factors. The Chinese support a strong NATO as a counterweight to the Soviet Union. And they regard Western Europe as an important supplementary source of technology and investment capital.

China is again closely associating itself with Third World causes, but this support is largely rhetorical. Indeed, China tends to conduct its relations with most third world countries on a cash and carry basis these days and provides far less aid than it once did.

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